

AMENDED IN SENATE JUNE 24, 2002

AMENDED IN ASSEMBLY MAY 23, 2001

CALIFORNIA LEGISLATURE—2001–02 REGULAR SESSION

## ASSEMBLY BILL

No. 433

Introduced by Committee on Budget (~~Cardenas (Chair), Aroner, Cardoza, Cedillo, Dutra, Firebaugh, Horton, Keeley, Nakano, Oropeza, Pavley, Simitian, Steinberg, Vargas, and Wright~~)

February 20, 2001

An act relating to education to amend Sections 17052.2, 17053.84, 17276.3, 19136.8, 23457, 23684, 24348, 24416.3, and 24449 of, to add Article 4 (commencing with Section 30133) to Chapter 2 of Part 13 of Division 2 of, and to add and repeal Section 17041.1 of, the Revenue and Taxation Code, and to amend and supplement the Budget Act of 2002, relating to revenue and appropriations for the support of the government of the State of California, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

### LEGISLATIVE COUNSEL'S DIGEST

AB 433, as amended, Committee on Budget. ~~Education: budget trailer~~ Sales and use taxes: personal income and corporation taxes: cigarette taxes: Budget Act of 2002.

Under the Personal Income Tax Law, taxes are imposed at specified rates up to a maximum of 9.3% based on the amount of the taxpayer's taxable income and a maximum of 7% based on the taxpayer's alternative minimum taxable income.

This bill would, for taxable years beginning on or after January 1, 2002, and before January 1, 2004, impose 10% and 11% maximum

rates for taxpayers with taxable incomes over certain amounts, and impose an 8.5% maximum rate based upon the taxpayer's alternative minimum taxable income. This bill would also provide for the waiver of certain penalties imposed with respect to the underpayment of tax.

The Personal Income Tax Law authorizes various credits against the tax imposed by that law, including a credit for credentialed teachers in an amount equal to the lesser of (1) the applicable of specified amounts based upon years of service as a teacher, or (2) 50% of the amount of tax imposed upon the taxpayer's income that is attributable to service as a teacher at a qualifying educational institution.

This bill would suspend the credit for taxable years beginning on or after January 1, 2002, and before January 1, 2003.

The Personal Income Tax Law and the Bank and Corporation Tax Law allow, for any taxable year beginning on or after January 1, 2001, and before January 1, 2004, a credit in an amount equal to the lesser of 15% of the specified cost of any solar energy system, or the applicable dollar amount per rated watt of that solar energy system, as provided.

This bill would suspend that credit for any taxable year beginning on or after January 1, 2002, and before January 1, 2003.

Existing law allows individual and corporate taxpayers to utilize net operating loss carryovers for purposes of offsetting their individual and corporate tax liabilities.

This bill would disallow specified net operating loss carryovers in the 2002 and 2003 taxable years. The bill would extend the carryover period for the net operating losses, thus allowing the taxpayers to have the same number of years to utilize the loss as they would have if the change had not been enacted.

The Bank and Corporation Tax Law, in specified conformity to federal income tax laws allows a deduction for bad debts, except that, among other things, the deduction of a savings and loan association, or bank or financial corporation is determined in accordance with special rules that allow a deduction for a reasonable addition to a reserve for bad debts.

This bill would, with respect to banks, modify that special rule to provide additional conformity to federal income tax laws relating to reserves for losses on loans of banks, except as otherwise provided. This bill would also make related changes with respect to the alternative minimum tax.

The Cigarette and Tobacco Products Tax Law imposes a tax on every distributor of cigarettes and tobacco products at specified rates,



including additional taxes imposed under the Tobacco Tax and Health Protection Act of 1988 (Proposition 99), and the California Families and Children Act of 1998 (Proposition 10).

This bill would, beginning on September 1, 2002, impose an additional tax on the distribution of cigarettes at the rate of 25 mills for each cigarette distributed. The revenues collected from this additional tax would be deposited in the General Fund.

This bill would result in a change in state taxes for the purpose of increasing state revenues within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of  $\frac{2}{3}$  of the membership of each house of the Legislature.

The California Constitution requires that the annual Budget Act be enacted for the support of state government in each fiscal year.

This bill would revise the Budget Act of 2002 by augmenting and reappropriating certain appropriations, as specified.

This bill would declare that it is to take effect immediately as an urgency statute.

~~Existing law sets forth a method for computing the state aid portion of the amount of revenue limit per unit of average daily attendance moneys to be allocated to school districts each fiscal year. Existing law also sets forth a method for computing the average daily attendance of pupils for this purpose. Section 8 of Article XVI of the California Constitution (Proposition 98) sets forth a formula for computing the minimum amount of General Fund revenues that the state is required to appropriate for the support of school districts, as defined, and community college districts for each fiscal year. That formula is adjusted in certain fiscal years for changes in pupil enrollment, as specified.~~

~~This bill would express the intent of the Legislature to enact legislation to make the necessary statutory changes relative to funding Proposition 98 funding levels to implement the Budget Act of 2001.~~

Vote: ~~majority~~  $\frac{2}{3}$ . Appropriation: ~~no~~ yes. Fiscal committee: ~~no~~ yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 ~~SECTION 1.—It is the intent of the Legislature to enact~~
- 2 *SECTION 1. It is the intent of the Legislature that the revenues*
- 3 *derived from this measure be used to restore funding for*

1 firefighting, providing grants to local governments for juvenile  
2 justice and high technology law enforcement, and waging the war  
3 on methamphetamine. The revenues raised in this bill will also:

4 (a) Provide health care by providing funds to the Healthy  
5 Families Program.

6 (b) Improve funding for the Adult Protective Services program  
7 and increase health care provider rates.

8 (c) Provide funding for subventions to cities and counties to  
9 offset the loss of revenue that results from reductions in the Vehicle  
10 License Fee and from the Williamson Act.

11 (d) Finance reductions in fees at the University of California  
12 and California State University.

13 (e) Finance recruitment for faculty at the Merced campus of the  
14 University of California.

15 SEC. 2. Section 17041.1 is added to the Revenue and Taxation  
16 Code, to read:

17 17041.1. (a) Notwithstanding any other provision of law, all  
18 of the following apply:

19 (1) (A) For any taxable year beginning on or after January 1,  
20 2002, and before January 1, 2004, the income tax brackets and  
21 rates set forth in paragraph (1) of subdivision (a) of Section 17041  
22 shall be modified by each of the following:

23 (i) For that portion of taxable income that is over one hundred  
24 thirty thousand dollars (\$130,000) but not over two hundred sixty  
25 thousand dollars (\$260,000), the tax rate is 10 percent of the  
26 excess over one hundred thirty thousand dollars (\$130,000).

27 (ii) For that portion of taxable income that is over two hundred  
28 sixty thousand dollars (\$260,000), the tax rate is 11 percent of the  
29 excess over two hundred sixty thousand dollars (\$260,000).

30 (B) The income tax brackets specified in this paragraph shall  
31 be recomputed, as otherwise provided in subdivision (h) of Section  
32 17041, only for taxable years beginning on and after January 1,  
33 2003, and before January 1, 2004.

34 (2) (A) For any taxable year beginning on or after January 1,  
35 2002, the income tax brackets and rates set forth in paragraph (1)  
36 of subdivision (c) of Section 17041 shall be modified by each of the  
37 following:

38 (i) For that portion of taxable income that is over one hundred  
39 seventy-six thousand nine hundred fifty dollars (\$176,950), but not  
40 over three hundred fifty-three thousand eight hundred ninety-nine

1 dollars (\$353,899), the tax rate is 10 percent of the excess over one  
2 hundred seventy-six thousand nine hundred fifty dollars  
3 (\$176,950).

4 (ii) For that portion of taxable income that is over three  
5 hundred fifty-three thousand eight hundred ninety-nine dollars  
6 (\$353,899), the tax rate is 11 percent of the excess over three  
7 hundred fifty-three thousand eight hundred ninety-nine dollars  
8 (\$353,899).

9 (B) The income tax brackets specified in this paragraph shall  
10 be recomputed, as otherwise provided in subdivision (h) of Section  
11 17041, only for taxable years beginning on and after January 1,  
12 2003, and before January 1, 2004.

13 (3) For any taxable year beginning on or after January 1, 2002,  
14 and before January 1, 2004, the tax imposed pursuant to  
15 subparagraph (A) of paragraph (3) of subdivision (b) of Section  
16 17062 is 8.5 percent.

17 (b) This section shall remain in effect only until January 1,  
18 2004, and as of that date is repealed.

19 SEC. 3. Section 17052.2 of the Revenue and Taxation Code is  
20 amended to read:

21 17052.2. (a) For each taxable year beginning on or after  
22 January 1, 2000, and before January 1, 2002, and for each taxable  
23 year beginning on or after January 1, 2003, there shall be allowed  
24 as a credit against the "net tax" (as defined by Section 17039) to  
25 a credentialed teacher an amount equal to the amount determined  
26 in subdivision (b).

27 (b) The amount of the credit shall be the lesser of the amounts  
28 computed under paragraph (1) or (2):

29 (1) In the case of any credentialed teacher who has, as of the last  
30 day of the taxable year:

31 (A) Completed at least four but less than six years of service as  
32 a credentialed teacher, the credit shall be two hundred fifty dollars  
33 (\$250).

34 (B) Completed at least six but less than 11 years of service as  
35 a credentialed teacher, the credit shall be five hundred dollars  
36 (\$500).

37 (C) Completed at least 11 but less than 20 years of service as a  
38 credentialed teacher, the credit shall be one thousand dollars  
39 (\$1,000).

1 (D) Completed 20 or more years of service as a credentialed  
2 teacher, the credit shall be one thousand five hundred dollars  
3 (\$1,500).

4 (E) For purposes of determining years of service, years of  
5 service performed as a teacher in a qualified education institution,  
6 which otherwise meets the criteria specified in subdivision (d)  
7 except that the qualified education institution is not located in this  
8 state, in another state shall qualify for each year the teacher was  
9 credentialed by the public education agency in that state.

10 (2) Fifty percent of the amount determined as follows:

11 (A) Divide the amount received by the taxpayer as wages and  
12 salary for services as a credentialed teacher, as defined in  
13 paragraph (3) of subdivision (c), by the taxpayer's total adjusted  
14 gross income from all sources.

15 (B) Multiply the taxpayer's total tax, as defined in paragraph  
16 (4) of subdivision (c), by a ratio, not to exceed 1.00, that is  
17 otherwise equal to the ratio determined for the taxpayer under  
18 subparagraph (A).

19 (c) For purposes of this section, all of the following definitions  
20 apply:

21 (1) "Credentialed teacher" means a person who holds a  
22 preliminary or professional clear credential as determined by the  
23 Commission on Teacher Credentialing pursuant to Article 1  
24 (commencing with Section 44200) of Chapter 2 of Part 25 of  
25 Division 2 of Title 2 of the Education Code and who teaches at a  
26 qualifying educational institution.

27 (2) "Qualifying educational institution" means any  
28 elementary, secondary, or vocational-technical school located in  
29 this state providing education for kindergarten, grades 1 to 12,  
30 inclusive, or any part thereof. "Qualifying educational  
31 institution" includes an agency or instrumentality of the federal  
32 government providing education for grades kindergarten, grades  
33 1 to 12, inclusive, or any part thereof, at any location within this  
34 state, including an Indian reservation or a military installation  
35 located within the geographical borders of this state, where a  
36 credentialed teacher is employed by the federal government or an  
37 agency or instrumentality thereof. "Qualifying educational  
38 institution" includes any elementary, secondary, or vocational  
39 technical school located in California, that files an affidavit  
40 pursuant to Sections 33190 and 33191 of the Education Code, and



1 provides education for kindergarten and grades 1 to 12, inclusive,  
2 or any part thereof.

3 (3) “Wages and salaries for services as a credentialed teacher”  
4 includes only those amounts received with respect to services  
5 performed as a credentialed teacher, but does not include pensions  
6 or other deferred compensation.

7 (4) “Total tax” means the tax imposed under this part for the  
8 taxable year, before the application under Section 19007 of any  
9 payment of estimated tax or any installment thereof, less all credits  
10 allowed for the taxable year except for the following:

11 (A) The credit allowed under this section.

12 (B) The credit allowed under Section 17061 (relating to  
13 refunds under the Unemployment Insurance Code).

14 (C) The credit allowed under Section 19002 (relating to tax  
15 withholding).

16 (D) Any refundable credit that is allowed under this part.

17 *SEC. 4. Section 17053.84 of the Revenue and Taxation Code*  
18 *is amended to read:*

19 17053.84. (a) For each taxable year beginning on or after  
20 January 1, 2001, and before January 1, 2002, and for each taxable  
21 year beginning on or after January 1, 2003, and before January 1,  
22 2004, there shall be allowed as a credit against the “net tax,” as  
23 defined in Section 17039, an amount equal to the lesser of 15  
24 percent of the cost that is paid or incurred by a taxpayer, after  
25 deducting the value of any other municipal, state, or federal  
26 sponsored financial incentives, during the taxable year for the  
27 purchase and installation of any solar energy system installed on  
28 property in this state, or the applicable dollar amount per rated watt  
29 of that solar energy system, as determined by the Franchise Tax  
30 Board in consultation with the State Energy Resources  
31 Conservation and Development Commission.

32 (b) For each taxable year beginning on or after January 1, 2004,  
33 and before January 1, 2006, there shall be allowed as a credit  
34 against the “net tax,” as defined in Section 17039, an amount  
35 equal to the lesser of 7.5 percent of the cost that is paid or incurred  
36 by a taxpayer, after deducting the value of any other municipal,  
37 state, or federal sponsored financial incentives, during the taxable  
38 year for the purchase and installation of any solar energy system  
39 installed on property in this state, or the applicable dollar amount  
40 per rated watt of that solar energy system, as determined by the

1 Franchise Tax Board in consultation with the State Energy  
2 Resources Conservation and Development Commission.

3 (c) For purposes of this section:

4 (1) “Applicable dollar amount” means four dollars and fifty  
5 cents (\$4.50) for any taxable year beginning on or after January 1,  
6 2001, and before January 1, 2006.

7 (2) “Solar energy system” means a solar energy device, in the  
8 form of either a photovoltaic or wind-driven system, with a peak  
9 generating capacity of up to, but not more than 200 kilowatts, used  
10 for the individual function of generating electricity, that is certified  
11 by the State Energy Resources Conservation and Development  
12 Commission and installed with a five-year warranty against  
13 breakdown or undue degradation.

14 (3) A credit may be allowed under this section with respect to  
15 only one solar energy system per each separate legal parcel of  
16 property or per each address of the taxpayer in the state.

17 (4) No credit may be allowed under this section unless the solar  
18 energy system is actually used for purposes of producing  
19 electricity and primarily used to meet the taxpayer’s own energy  
20 needs.

21 (d) No other credit and no deduction may be allowed under this  
22 part for any cost for which a credit is allowed by this section. The  
23 basis of the solar energy system shall be reduced by the amount  
24 allowed as a credit under subdivision (a) or (b).

25 (e) No credit shall be allowed to any taxpayer engaged in those  
26 lines of business described in Sector 22 of the North American  
27 Industry Classification System (NAICS) Manual published by the  
28 United States Office of Management and Budget, 1997 edition.

29 (f) If any solar energy system for which a credit is allowed  
30 pursuant to this section is thereafter sold or removed from this state  
31 within one year from the date the solar energy system is first placed  
32 in service in this state, the amount of credit allowed by this section  
33 for that solar energy system shall be recaptured by adding that  
34 credit amount to the net tax of the taxpayer for the taxable year in  
35 which the solar energy system is sold or removed.

36 (g) In the case where the credit allowed by this section exceeds  
37 the “net tax,” the excess may be carried over to reduce the “net  
38 tax” in the following year, and the succeeding seven years if  
39 necessary, until the credit is exhausted.





(h) This section shall remain in effect only until December 1, 2006, and as of that date is repealed.

SEC. 5. *Section 17276.3 of the Revenue and Taxation Code is amended to read:*

17276.3. (a) Notwithstanding—~~Section~~ *Sections 17276, 17276.1, 17276.2, 17276.4, 17276.5, 17276.6, and 17276.7 of this code and Section 172 of the Internal Revenue Code, no net operating loss deduction shall be allowed for all taxable years beginning in the 1991 and 1992 calendar years pursuant to any of those sections for any taxable year beginning on or after January 1, 2002, and before January 1, 2004.*

(b) For any carryover of a net operating loss for which a deduction is denied by subdivision (a), the carryover period under Section 172 of the Internal Revenue Code shall be extended as follows:

~~(1) By one year, for losses sustained in taxable years beginning in 1991.~~

~~(2) By two years, for losses sustained in taxable years beginning prior to January 1, 1991.~~

~~(c) Notwithstanding any other provision of this section, a deduction shall be allowed to a “qualified taxpayer” as provided in Sections 17276.1 and 17276.2 for taxable years beginning in the 1991 and 1992 calendar years.~~

*(1) By one year, for losses incurred on or after January 1, 2002, and before January 1, 2003.*

*(2) By two years, for losses incurred before January 1, 2002.*

SEC. 6. *Section 19136.8 of the Revenue and Taxation Code is amended to read:*

19136.8. (a) No addition to tax shall be made under Section 19136 for any period before April 15, 2003, with respect to any underpayment of an installment for the 2002 taxable year, to the extent that the underpayment was created or increased by any provision of the act adding this section *law enacted or amended by an act chaptered during the 2002 calendar year.*

(b) No addition of tax shall be made under Section 19142 for any period before April 15, 2003, with respect to any underpayment of an installment for the 2002 taxable year, to the extent that the underpayment was created or increased by any provision of the act adding this section *law enacted or amended by an act chaptered during the 2002 calendar year.*

1 (c) The Franchise Tax Board shall implement this section in a  
2 reasonable manner.

3 *SEC. 7. Section 23457 of the Revenue and Taxation Code, as*  
4 *amended by Section 37 of Chapter 35 of the Statutes of 2002, is*  
5 *amended to read:*

6 23457. For purposes of this part, Section 57 of the Internal  
7 Revenue Code is modified as follows:

8 (a) Section 57(a)(5) of the Internal Revenue Code, relating to  
9 tax-exempt interest, shall not be applicable.

10 ~~(b) Section 57(a) of the Internal Revenue Code, relating to~~  
11 ~~items of tax preference, is modified to include as an item of tax~~  
12 ~~preference the amount by which the deduction allowable under~~  
13 ~~Section 24348 for the taxable year for a reasonable addition to a~~  
14 ~~reserve for bad debts exceeds the amount that would have been~~  
15 ~~allowable had the taxpayer maintained its bad debt reserve for all~~  
16 ~~taxable years on the basis of actual experience.~~

17 ~~(c) Section 57(a)(6) of the Internal Revenue Code, relating to~~  
18 ~~accelerated depreciation or amortization on certain property~~  
19 ~~placed in service before January 1, 1987, is modified to read: With~~  
20 ~~respect to each property as described in Section 1250(c) of the~~  
21 ~~Internal Revenue Code as that provision read on April 1, 1970, the~~  
22 ~~amount by which the deduction allowable for the taxable year for~~  
23 ~~exhaustion, wear, tear, obsolescence, or amortization exceeds the~~  
24 ~~depreciation deduction that would have been allowable for the~~  
25 ~~taxable year, had the taxpayer depreciated the property under the~~  
26 ~~straight line method for each taxable year of its useful life~~  
27 ~~(determined without regard to Section 24354.2 or 24381) for~~  
28 ~~which the taxpayer has held the property.~~

29 *SEC. 8. Section 23684 of the Revenue and Taxation Code is*  
30 *amended to read:*

31 23684. (a) For each taxable year beginning on or after  
32 January 1, 2001, and before January 1, 2002, and for each taxable  
33 year beginning on or after January 1, 2003, and before January 1,  
34 2004, there shall be allowed as a credit against the "tax," as  
35 defined in Section 23036, an amount equal to the lesser of 15  
36 percent of the cost that is paid or incurred by a taxpayer, after  
37 deducting the value of any other municipal, state, or federal  
38 sponsored financial incentives, during the taxable year for the  
39 purchase and installation of any solar energy system installed on  
40 property in this state, or the applicable dollar amount per rated watt

of that solar energy system, as determined by the Franchise Tax Board in consultation with the State Energy Resources Conservation and Development Commission.

(b) For each taxable year beginning on or after January 1, 2004, and before January 1, 2006, there shall be allowed as a credit against the “net tax,” as defined in Section 17039, an amount equal to the lesser of 7.5 percent of the cost that is paid or incurred by a taxpayer, after deducting the value of any other municipal, state, or federal sponsored financial incentives, during the taxable year for the purchase and installation of any solar energy system installed on property in this state, or the applicable dollar amount per rated watt of that solar energy system, as determined by the Franchise Tax Board in consultation with the State Energy Resources Conservation and Development Commission.

(c) For purposes of this section:

(1) “Applicable dollar amount” means four dollars and fifty cents (\$4.50) for any taxable year beginning on or after January 1, 2001, and before January 1, 2006.

(2) “Solar energy system” means a solar energy device, in the form of either a photovoltaic or wind-driven system, with a peak generating capacity of up to, but not more than 200 kilowatts, used for the individual function of generating electricity, that is certified by the State Energy Resources Conservation and Development Commission and installed with a five-year warranty against breakdown or undue degradation.

(3) A credit may be allowed under this section with respect to only one solar energy system per each separate legal parcel of property or per each address of the taxpayer in the state.

(4) No credit may be allowed under this section unless the solar energy system is actually used for purposes of producing electricity and is primarily used to meet the taxpayer’s own energy needs.

(d) No other credit and no deduction may be allowed under this part for any cost for which a credit is allowed by this section. The basis of the solar energy system shall be reduced by the amount allowed as a credit under subdivision (a) or (b).

(e) No credit may be allowed to any taxpayer engaged in those lines of business described in Sector 22 of the North American Industry Classification System (NAICS) Manual published by the United States Office of Management and Budget, 1997 edition.

(f) If any solar energy system for which a credit is allowed pursuant to this section is thereafter sold or removed from this state within one year from the date the solar energy system is first placed in service in this state, the amount of credit allowed by this section for that solar energy system shall be recaptured by adding that credit amount to the tax of the taxpayer for the taxable year in which the solar energy system is sold or removed.

(g) In the case where the credit allowed by this section exceeds the “tax,” the excess may be carried over to reduce the “tax” in the following year, and the succeeding seven years if necessary, until the credit is exhausted.

(h) This section shall remain in effect only until December 1, 2006, and as of that date is repealed.

*SEC. 9. Section 24348 of the Revenue and Taxation Code is amended to read:*

24348. (a) ~~(1)~~—There shall be allowed as a deduction either of the following:

~~(A)~~

(1) Debts which become worthless within the taxable year in an amount not in excess of the part charged off within that taxable year.

~~(B)~~

(2) In the case of a ~~savings and loan association, bank, or financial corporation~~, in lieu of any deduction under ~~subparagraph (A) paragraph (1)~~, in the discretion of the Franchise Tax Board, a reasonable addition to a reserve for bad debts *determined in accordance with Section 585 of the Internal Revenue Code, relating to reserves for losses on loans of banks, except as otherwise provided.*

~~(2)~~

(b) When satisfied that a debt is recoverable in part only, the Franchise Tax Board may allow that debt, in an amount not in excess of the part charged off within the taxable year, as a deduction; provided, however, that if a portion of a debt is claimed and allowed as a deduction in any year, no deduction shall be allowed in any subsequent year for any portion of the debt which in any prior year was charged off, regardless of whether claimed as a deduction in that prior year.

~~(b) (1) The amendments to this section made during the 1985-86 Regular Session by the act adding this subdivision shall apply only to taxable years beginning after December 31, 1987.~~

~~(2) In the case of any taxpayer who maintained a reserve for bad debts for that taxpayer's last taxable year beginning before January 1, 1988, and who is required by the amendments to this section to change its method of accounting for any taxable year, all of the following shall apply:~~

~~(A) That change shall be treated as initiated by the taxpayer.~~

~~(B) That change shall be treated as made with the consent of the Franchise Tax Board.~~

~~(C) The net amount of adjustments required by Article 6 (commencing with Section 24721) of Chapter 13, to be taken into account by the taxpayer shall:~~

~~(i) In the case of a taxpayer maintaining a reserve under former subdivision (b) (prior to the amendments made during the 1985-86 Regular Session by the act adding this subdivision), be reduced by the balance in the suspense account under paragraph (4) of that subdivision as of the close of such last taxable year; and~~

~~(ii) Be taken into account ratably in each of the first four taxable years beginning after December 31, 1987.~~

*(c) (1) The amendments to this section made by the act adding this subdivision shall apply only to taxable years beginning on or after January 1, 2002.*

*(2) In the case of any taxpayer that maintained a reserve for bad debts for the taxpayer's last taxable year beginning before January 1, 2002, and that is required by the amendments to this section to change its method of computing reserves for bad debts, all of the following shall apply:*

*(A) That change shall be treated as a change in a method of accounting.*

*(B) That change shall be treated as initiated by the taxpayer.*

*(C) That change shall be treated as made with the consent of the Franchise Tax Board.*

*(D) The net amount of adjustments required by Article 6 (commencing with Section 24721) of Chapter 13 to be taken into account by the taxpayer:*

*(i) Shall be determined by taking into account only "applicable excess reserves" (as defined in subdivision (d)), and*

(ii) As so determined, shall be taken into account ratably in each of the first four taxable years beginning on or after January 1, 2002.

(d) (1) Except as provided in paragraph (2), the term “applicable excess reserves” means the balance of the reserves described in former subparagraph (B) of paragraph (1) of subdivision (a) (prior to the amendments made by the act adding this subdivision) as of the close of the taxpayer’s last taxable year beginning before January 1, 2002.

(2) (A) The term “applicable excess reserves” means, in the case of a bank (as defined in Section 581 of the Internal Revenue Code) that was not a large bank (as defined in Section 585(c)(2)) of the Internal Revenue Code for its first taxable year beginning on or after January 1, 2002, the excess (if any) of:

(i) The balance of the reserves described in former subparagraph (B) of paragraph (1) of subdivision (a) (prior to the amendments made by the act adding this subdivision) as of the close of the taxpayer’s last taxable year beginning before January 1, 2002, over

(ii) An amount that is not less than the amount that would be the balance of those reserves as of the close of its last taxable year beginning before January 1, 2002, if the additions to those reserves for all taxable years had been determined under Section 585(b)(2)(A) of the Internal Revenue Code.

(B) The opening balance of the reserve for bad debts as of the beginning of the first taxable year beginning on or after January 1, 2002, shall be the balance determined under clause (ii) of subparagraph (A).

SEC. 10. Section 24416.3 of the Revenue and Taxation Code is amended to read:

24416.3. (a) Notwithstanding—~~Section~~ Sections 24416, 24416.1, 24416.2, 24416.4, 24416.5, 24416.6, and 24416.7 of this code and Section 172 of the Internal Revenue Code, no net operating loss deduction shall be allowed ~~for all income years beginning in the 1991 and 1992 calendar years pursuant to any of those sections for any taxable year beginning on or after January 1, 2002, and before January 1, 2004.~~

(b) For any carryover of a net operating loss for which a deduction is denied by subdivision (a), the carryover period under



Section 172 of the Internal Revenue Code shall be extended as follows:

~~(1) By one year, for losses sustained in income years beginning in 1991.~~

~~(2) By two years, for losses sustained in income years beginning prior to January 1, 1991.~~

~~(c) Notwithstanding any other provision of this section, a deduction shall be allowed to a "qualified taxpayer" as provided in Sections 24416.1 and 24416.2 for income years beginning in the 1991 and 1992 calendar years.~~

*(1) By one year, for losses incurred on or after January 1, 2002, and before January 1, 2003.*

*(2) By two years, for losses incurred before January 1, 2002.*

*SEC. 11. Section 24449 of the Revenue and Taxation Code is amended to read:*

24449. (a) Section 291 of the Internal Revenue Code, relating to special rules relating to corporate preference items, shall apply, except as otherwise provided.

(b) ~~For purposes of this section:~~

~~(1) The reference in Section 291(a)(3) to "a deduction under this chapter" shall be modified to mean the deduction under Section 24348 of this part.~~

~~(2) The reference in Section 291(b)(1) of the Internal Revenue Code to "Section 263(c)" shall be modified to mean the deduction under Section 24423 of this part.~~

*SEC. 12. Article 4 (commencing with Section 30133) is added to Chapter 2 of Part 13 of Division 2 of the Revenue and Taxation Code, to read:*

*Article 4. General Fund Surtax on Tobacco*

*30133. (a) In addition to the taxes imposed upon the distribution of cigarettes by Article 1 (commencing with Section 30101), Article 2 (commencing with Section 30121), Article 3 (commencing with Section 30131), and any other taxes in this chapter, there shall be imposed an additional surtax upon every distributor of cigarettes at the rate of twenty-five mills (\$0.025) for each cigarette distributed.*

1     **(b)** *The tax imposed under this section shall be imposed on*  
2 *cigarettes in the possession or under the control of every dealer*  
3 *and distributor on and after 12:01 a.m. on September 1, 2002.*

4     30135. **(a)** *Every dealer and wholesaler, for the privilege of*  
5 *holding or storing cigarettes for sale, use, or consumption, shall*  
6 *pay a floor stock tax for each cigarette in his or her possession or*  
7 *under his or her control in this state at 12:01 a.m. on September*  
8 *1, 2002, at the rate of two and one-half cents (\$0.025) for each*  
9 *cigarette.*

10   **(b)** *Every dealer and wholesaler shall file a return with the*  
11 *board on or before October 15, 2002, on a form prescribed by the*  
12 *board, showing the number of cigarettes in his or her possession*  
13 *or under his or her control at 12:01 a.m. on September 1, 2002. The*  
14 *amount of tax shall be computed and shown on the return.*

15   **(c)** *Every licensed cigarette distributor, for the privilege of*  
16 *distributing cigarettes and for holding or storing cigarettes for*  
17 *sale, use, or consumption, shall pay a cigarette indicia adjustment*  
18 *tax for each California cigarette tax stamp that is affixed to any*  
19 *package of cigarettes and for each unaffixed California cigarette*  
20 *tax stamp in his or her possession or under his or her control at*  
21 *12:01 a.m. on September 1, 2002, at the following rates:*

22    **(1)** *Sixty-two and one-half cents (\$0.625) for each stamp*  
23 *bearing the designation "25."*

24    **(2)** *Fifty cents (\$0.50) for each stamp bearing the designation*  
25 *"20."*

26    **(3)** *Twenty-five cents (\$0.25) for each stamp bearing the*  
27 *designation "10."*

28   *These amounts shall be reduced by a discount to a licensed*  
29 *distributor in the amount determined in accordance with Section*  
30 *30166.*

31   **(d)** *Every licensed cigarette distributor shall file a return with*  
32 *the board on or before October 15, 2002, on a form prescribed by*  
33 *the board, showing the number of stamps in paragraphs (1), (2),*  
34 *and (3) of subdivision (c). The amount of tax shall be computed and*  
35 *shown on the return.*

36   **(e)** *The taxes required to be paid by this section are due and*  
37 *payable on or before October 15, 2002. Payments shall be made*  
38 *by remittances payable to the board and the payments shall*  
39 *accompany the forms required to be filed by this section.*

1     (f) Any amount required to be paid by this section that is not  
2 timely paid shall bear interest at the rate and by the method  
3 established pursuant to Section 30202 from October 15, 2002,  
4 until paid, and shall be subject to determination, and  
5 redetermination, and any penalties provided with respect to  
6 determinations and redeterminations.

7     30137. Except for payments of refunds made pursuant to  
8 Article 1 (commencing with Section 30361) of Chapter 6, and  
9 reimbursement of the State Board of Equalization for expenses  
10 incurred in the administration and collection of the taxes imposed  
11 by this article, all moneys raised pursuant to the taxes imposed by  
12 this article shall be transmitted by the board to the Treasurer for  
13 deposit in the General Fund.

14     SEC. 13. It is the intent of the Legislature that, in order to  
15 improve compliance with state tax laws and to accelerate the  
16 collection of accounts determined to be at high risk for collection,  
17 the staff of the Franchise Tax Board shall, pursuant to Section  
18 19444 of the Revenue and Taxation Code as added by this act,  
19 expeditiously institute special collection efforts to commence on  
20 October 1, 2002, and end on June 30, 2003.

21     SEC. 14. The appropriations made by this act are in  
22 augmentation of the appropriations made in Section 2.00 of  
23 Assembly Bill 425, and are subject to the provisions of that act, as  
24 appropriate, including, as applicable, the provisions of that act  
25 that apply to the items of appropriation that are augmented by this  
26 act. The references in this act to item numbers refer to items of  
27 appropriation in Section 2.00 of Assembly Bill 425.

28     SEC. 15. The sum of twelve million three hundred thousand  
29 dollars (\$12,300,000) is hereby appropriated from the General  
30 Fund to the Technology, Trade and Commerce Agency, in  
31 augmentation of the appropriation made in Item 2920-101-0001,  
32 for the grants for the Science, Technology and Innovation  
33 program, Economic Development program, Biomass program,  
34 and Small Business Development Centers.

35     SEC. 16. The sum of ten million dollars (\$10,000,000) is  
36 hereby appropriated from the General Fund to the Technology,  
37 Trade and Commerce Agency, in augmentation of the  
38 appropriation made in Item 2920-101-3005 for the Film  
39 California First program.

1     SEC. 17. The sum of ten million dollars (\$10,000,000) is  
2 hereby appropriated from the General Fund to the California Film  
3 First Fund, in augmentation of the appropriation made in Item  
4 2920-111-0001 for the Film California First program.

5     SEC. 18. The sum of seventy-two million five hundred  
6 thousand dollars (\$72,500,000) is hereby appropriated from the  
7 General Fund to the Department of Health Services, in  
8 augmentation of the appropriation made in Item 4260-101-0001,  
9 for increasing the payment to providers.

10    SEC. 19. The sum of eighty-seven million nine hundred  
11 fifty-nine thousand dollars (\$87,959,000) is hereby appropriated  
12 from the General Fund to the Department of Health Services, in  
13 augmentation of the appropriation made in Item 4260-101-0001,  
14 for the reimbursement of county administration costs.

15    SEC. 20. The sum of fifty million fourteen thousand dollars  
16 (\$50,014,000) is hereby appropriated from the General Fund to  
17 the Managed Risk Medical Insurance Board, in augmentation of  
18 the appropriation made in Item 4280-101-0001, for the payment  
19 of claims against the Healthy Families Program.

20    SEC. 21. The sum of two million four hundred sixteen  
21 thousand dollars (\$2,416,000) is hereby appropriated from the  
22 General Fund to the Managed Risk Medical Insurance Board, in  
23 augmentation of the appropriation made in Item 4280-102-0001,  
24 for the payment of claims against the Healthy Families Program.

25    SEC. 22. The sum of twenty-two million four hundred  
26 sixty-eight thousand dollars (\$22,468,000) is hereby appropriated  
27 from the General Fund to the Department of Social Services, in  
28 augmentation of the appropriation made in Item 5180-111-0001,  
29 for the costs associated with a cost-of-living adjustment in the  
30 SSI/SSP program.

31    SEC. 23. The sum of five million five hundred seventy-five  
32 thousand dollars (\$5,575,000) is hereby appropriated from the  
33 General Fund to the Department of Social Services, in  
34 augmentation of the appropriation made in Item 5180-151-0001,  
35 for the support of the Adult Protective Services program.

36    SEC. 24. The sum of four hundred twenty-four million dollars  
37 (\$424,000,000) is hereby appropriated from the General Fund to  
38 the Department of Education, in augmentation of the  
39 appropriation made in Item 6110-116-0001, for the support of the  
40 school improvements program.

1 SEC. 25. *The sum of thirty-nine million one hundred thousand*  
2 *dollars (\$39,100,000) is hereby appropriated from the General*  
3 *Fund to the California State University, in augmentation of the*  
4 *appropriation made in Item 6610-001-0001, for the support of*  
5 *educational programs.*

6 SEC. 26. *The sum of thirty-one million five hundred thirty-two*  
7 *thousand dollars (\$31,532,000) is hereby appropriated from the*  
8 *General Fund to the California State Library, in augmentation of*  
9 *the appropriation made in Item 6120-221-0001, for the support of*  
10 *the California Library Foundation.*

11 SEC. 27. *The sum of forty-three million one hundred thousand*  
12 *dollars (\$43,100,000) is hereby appropriated from the General*  
13 *Fund to the University of California, in augmentation of the*  
14 *appropriation made in Item 6440-001-0001, for educational*  
15 *programs.*

16 SEC. 28. *The sum of fifteen million five hundred thousand*  
17 *dollars (\$15,500,000) is hereby reverted to the General Fund from*  
18 *Item 7980-101-0001, with the reverted amounts apportioned*  
19 *among the scheduled allocation of funds in the item.*

20 SEC. 29. *The sum of eighteen million three hundred*  
21 *eighty-seven thousand dollars (\$18,387,000) is hereby*  
22 *appropriated from the General Fund to the Arts Council, in*  
23 *augmentation of the appropriation made in Item 8260-101-0001,*  
24 *for grants to local arts organizations.*

25 SEC. 30. *The sum of two million dollars (\$2,000,000) is*  
26 *hereby appropriated from the General Fund to the Arts Council,*  
27 *in augmentation of the appropriation made in Item*  
28 *8260-102-0001, for the support of the Tools for Tolerance*  
29 *program.*

30 SEC. 31. *The sum of eleven million five hundred eighty-five*  
31 *thousand dollars (\$11,585,000) is hereby appropriated from the*  
32 *General Fund to the Military Department, in augmentation of the*  
33 *appropriation made in Item 8940-001-0001, for support of*  
34 *programs in schools.*

35 SEC. 32. *The sum of three billion seven hundred twenty-four*  
36 *million dollars (\$3,724,000,000) is hereby appropriated from the*  
37 *General Fund to Tax Relief, in augmentation of the appropriation*  
38 *made in Item 9100-111-0001, for transfer to local governments for*  
39 *the amount associated with the Vehicle License Fee offset.*

1 SEC. 33. The sum of eighteen million five hundred thousand  
2 dollars (\$18,500,000) is hereby appropriated from the General  
3 Fund to Local Government Financing, in augmentation of the  
4 appropriation made in Item 9210-107-0001, for allocation to  
5 specified county sheriffs' departments to enhance law enforcement  
6 efforts in the 2002–03 fiscal year, pursuant to the provisions of  
7 Section 95.31 of the Revenue and Taxation Code.

8 SEC. 34. The sum of thirty-eight million two hundred twenty  
9 thousand dollars (\$38,220,000) is hereby appropriated from the  
10 General Fund to Local Government Financing, in augmentation  
11 of the appropriation made in Item 9210-104-0001, for reimbursing  
12 cities for their costs associated with the booking fees levied  
13 pursuant to Chapter 466 of the Statutes of 1990.

14 SEC. 35. The sum of thirty-nine million dollars (\$39,000,000)  
15 is hereby appropriated from the General Fund to Tax Relief, in  
16 augmentation of the appropriation made in Item 9100-101-0001,  
17 for reimbursement to local government for costs associated with  
18 the Williamson Act (Chapter 7 (commencing with Section 51200)  
19 of Part 1 of Division 1 of Title 5 of the Government Code).

20 SEC. 36. The sum of fifty-one million five hundred thousand  
21 dollars (\$51,500,000) is hereby appropriated from the General  
22 Fund to Local Government Financing, in augmentation of the  
23 appropriation made in Item 9210-105-0001, for providing  
24 assistance to counties for the costs of administering the property  
25 tax.

26 SEC. 37. The sum of two hundred thirty-two million six  
27 hundred thousand dollars (\$232,600,000) is hereby appropriated  
28 from the General Fund to Local Government Finance, in  
29 augmentation of the appropriation made in Item 9210-101-0001,  
30 for juvenile justice grants and the COPS program.

31 SEC. 38. The sum of one hundred fourteen million dollars  
32 (\$114,000,000) is hereby appropriated from the General Fund to  
33 the Scholarshare Investment Board, in augmentation of the  
34 appropriation made in Item 0954-001-0001, for assistance to  
35 students.

36 SEC. 39. The sum of thirteen million nine hundred thousand  
37 dollars (\$13,900,000) is hereby appropriated from the General  
38 Fund to the University of California, in augmentation of the  
39 appropriation made in Item 6440-004-0001, for the costs



1 associated with starting up the Merced campus of the University  
2 of California.

3 SEC. 40. The sum of seventy-five million dollars  
4 (\$75,000,000) is hereby appropriated from the General Fund to  
5 the California Department of Forestry and Fire Protection, in  
6 augmentation of the appropriation made in Item 3540-001-0001,  
7 for the costs associated with firefighting.

8 SEC. 41. The sum of two million nine hundred thousand  
9 dollars (\$2,900,000) is hereby appropriated from the General  
10 Fund to the Office of Criminal Justice Planning, in augmentation  
11 of the appropriation made in Item 8100-101-0001, for local  
12 assistance to continue to wage the War on Methamphetamine.

13 SEC. 42. This act is an urgency statute necessary for the  
14 immediate preservation of the public peace, health, or safety  
15 within the meaning of Article IV of the Constitution and shall go  
16 into immediate effect. The facts constituting the necessity are:

17 In view of the fact that the State of California is experiencing a  
18 fiscal crisis, in order to improve compliance with state tax laws and  
19 to accelerate the collection of accounts that might not otherwise  
20 be collected, and in order to provide for sufficient revenues for the  
21 funding of the critical needs of the state, it is necessary that this act  
22 take effect immediately. In order to make certain necessary  
23 augmentations to the appropriations made by the Budget Act of  
24 2002 for support of state government for the 2002–03 fiscal year,  
25 it is necessary that this act take effect immediately.

26 ~~legislation to make the necessary statutory changes relative to~~  
27 ~~funding Proposition 98 funding levels to implement the Budget~~  
28 ~~Act of 2001.~~

29 \_\_\_\_\_  
30 CORRECTIONS

31 **Heading.**

32 **Digest — Page 1.**

33 **Text — Pages 4, 7 and 18.**